

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 SIL-01

AF-06 ARA-06 EA-07 NEA-10 IO-11 SAM-01 /135 W

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R 011755Z MAR 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 636

INFO ALL EC CAPITALS 1754

C O N F I D E N T I A L EC BRUSSELS 2082

E.O. 11652: GDS

TAGS: EEC

SUBJECT: CALL ON EC COMMISSION PRESIDENT ORTOLI

1. DURING PRESENTATION OF CREDENTIALS CALL ON PRESIDENT ORTOLI, I ASKED FOR HIS IMPRESSIONS OF WASHINGTON VISIT. HE SAID HE WAS SATISFIED THAT HE HAD BEEN ABLE TO GET ACROSS TO ALL HE SAW HIS DEEP CONCERN ABOUT THE EFFECTS WHICH PROTECTIONIST ACTION BY US WOULD HAVE ON CURRENT INTERNATIONAL ECONOMIC SITUATION. HE STATED HIS VIEW AS FOLLOWS:

A.) REGARDLESS OF THE APPARENT JUSTIFICATION FOR PROTECTION IN ANY GIVEN CASE (AND INCIDENTALLY ITC JUSTIFICATIONS ARE NOT CONVINCING TO HIM), ACTION BY US, BECAUSE OF ITS ENORMOUS INFLUENCE IN WORLD TRADE, WOULD ALMOST INEVITABLY UNLEASH PROTECTIONIST FORCES ELSEWHERE.

B.) PROTECTIONIST ACTION WOULD SERIOUSLY ERODE CLIMATE OF GROWING CONFIDENCE THAT INDUSTRIAL WORLD CAN PULL OUT OF CURRENT RECESSION WITHOUT DISRUPTING TRADE FLOWS. WITHOUT THAT CONFIDENCE, PROSPECTS FOR FURTHER TRADE LIBERALIZATION THROUGH MTN WOULD BE SEVERELY  
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COMPROMISED.

C.) DESPITE TURNAROUND IN US TRADE BALANCE IN JANUARY, FACT REMAINS THAT US HAS BEEN ENJOYING SUBSTANTIAL SURPLUS, LARGE PART OF WHICH HAS BEEN WITH EC. PROTECTIONIST ACTION WHICH HITS AT IMPORTANT EC EXPORTS WOULD BE PARTICULARLY DIFFICULT TO JUSTIFY TO EUROPEANS AND WOULD LEAD TO HEAVY PRESSURE FOR RETALIATION.

D.) RAMBOUILLET (WHILE NOT POPULAR WITH COMMISSION FOR ITS BUREAUCRATIC REASONS) HELD PROMISE OF BEING "HISTORIC TURNING POINT" IN RELATIONS AMONG MAIN INDUSTRIAL POWERS WHICH US PROTECTIONISM COULD UNDO.

2. I TOLD ORTOLI HE MADE STRONG CASE BUT THAT THERE WERE ALSO, AS HE KNEW, DOMESTIC POLITICAL CONSIDERATIONS. I ADDED THAT THE OBLIGATION TO RESIST PROTECTIONISM RESTS EQUALLY ON EC. WE WERE CONCERNED ABOUT SUCH COMMISSION PROPOSALS AS NFDN DEPOSIT SCHEME WHICH REGARDLESS OF HOW JUSTIFIABLE THEY MAY SEEM ARE LIKELY TO AFFECT OUR EXPORTS ADVERSELY. HE REPLIED COMMISSION WAS SATISFIED THAT ITS LATEST PROPOSAL IS CONSISTENT WITH GATT. WHEN COUPLED WITH INCENTIVE SCHEME TO STOCK VEGETABLE PROTEIN, HE BELIEVED IMPACT ON TRADE WOULD NOT BE SIGNIFICANT. I RESPONDED THAT WE DID NOT BELIEVE PROPOSAL WAS CONSISTENT WITH GATT AND THAT WE WOULD DEFEND OUR RIGHTS IN GATT IF PROPOSED SCHEME WAS ADOPTED. I ADDED THAT IT WOULD HELP IF EC WERE ACTING VIGOROUSLY TO CORRECT UNDERLYING FORCES THAT HAD PRODUCED SURPLUS IN FIRST PLACE.

3. ORTOLI WENT ON TO DEFEND COMMISSION'S AGRICULTURAL PRICE POLICIES ON FAMILIAR POLITICAL AND "SOCIAL POLICY" GROUNDS: EC FARM SECTOR IS GOING THROUGH CRITICAL PERIOD, WITH MARGINAL PRODUCERS MOVING OUT OF FARMING; FOR MANY SMALL PRODUCERS, INCOME FROM A FEW DAIRY COWS WAS, IN EFFECT, THEIR ONLY REAL CASH RESOURCE; GIVEN RISING UNREST AMONG FARMERS, AND POLITICAL STAKE WHICH EC GOVERNMENTS HAVE IN RURAL POPULATION AS MAJOR SOURCE OF THEIR SUPPORT, IT IS IMPORTANT THAT THE TRANSITION TO SMALLER, MORE MODERN AND PRODUCTIVE AGRICULTURE NOT BE MADE MORE DIFFICULT THAN IT ALREADY IS. IN FACT COMMISSION PRICE POLICY IN GENERAL HAS BEEN TO PROPOSE INCREASES BELOW WHAT FARMERS NEED TO KEEP EVEN WITH INFLATION.

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4. ORTOLI ALSO REMARKED THAT HE WAS PLEASED THAT SECRETARY BUTZ HAD SHOWN COMPREHENSION OF COMMUNITY'S POLITICAL, SOCIAL, AND ECONOMIC PROBLEMS ON NFDN, AND THAT BOTH THE US AND EC NEEDED TO INTENSIFY EFFORTS TO MANAGE OUR DIFFERENCES IN WAYS WHICH KEPT THEM FROM BECOMING SERIOUS THREATS TO OUR OVERALL RELATIONSHIP. I AGREED THAT CAREFUL MANAGEMENT WAS INDEED IMPORTANT, SAID I WAS ALWAYS AVAILABLE TO HIM TO FURTHER THAT

PURPOSE, THAT THAT WAS SECRETARY BUTZ' INTENTION, BUT THAT THAT DID NOT MEAN WE WOULD NOT INVOKE OUR GATT RIGHTS.

5. WHILE ABOVE CONSTITUTED MOST SUBSTANTIVE PART OF OUR CONVERSATION, ORTOLI ALSO EMPHASIZED, DURING OTHER PORTIONS OUR DISCUSSION, IMPORTANCE HE ATTACHED TO CLOSE WORKING RELATIONS BETWEEN US AND COMMISSION IN ORDER TO CARRY TO SUCCESSFUL CONCLUSION VARIETY OF MULTILATERAL EFFORTS (MTN, NORTH/SOUTH DIALOGUE AND VARIOUS UN ACTIVITIES) IN WHICH WE WERE MUTUALLY ENGAGED. HE FELT THAT THESE RELATIONSHIPS HAD GROWN IN BOTH SCOPE AND DEPTH DURING PERIOD HE HAD BEEN IN BRUSSELS AND HE CONTRASTED CURRENT SITUATION FAVORABLY WITH WHAT HE HAD ENCOUNTERED AT BEGINNING OF HIS TERM OF OFFICE. HINTON

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